

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 EB-11 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

ACDA-19 MBFR-03 SAJ-01 OMB-01 SCEM-02 TRSE-00 RSR-01

NEA-10 FPC-01 NIC-01 COME-00 CIEP-02 /143 W

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R 161612Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6291

INFO USMISSION BERLIN

AMEMBASSY LONDON

AMEMBASSY MOSCOW

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E.O. 11652: GDS

TAGS: PFOR, ENRG, WB, GE, GW

SUBJECT: BERLIN ENERGY SUPPLY: GDR PIPELINE AND
FRG-WEST BERLIN TRANSMISSION LINE

REF: A. BONN 9490; B. STATE 130776; C. BERLIN 1145;
D. BERLIN 1055 AND E. BERLIN A-163

1. SUMMARY. ECONOMICS MINISTRY PETROLEUM EXPERTS
CONSIDER THAT THE SCHWEDT-BERLIN PIPELINE DEAL,
PROPERLY NEGOTIATED, WOULD IMPROVE RELIABILITY OF WEST
BERLIN'S PETROLEUM PRODUCTS SUPPLY. FRG CONSIDERS
THIS PROJECT AS INDEPENDENT OF PROPOSED FRG-WEST BERLIN
POWER TRANSMISSION LINE. BONN CONTINUES TO PRESS
THE GDR HARD ON THIS LATTER REQUIREMENT THROUGH THE
SOVIETS AND POLES AND THROUGH THE THREAT OF NON-
RENEWAL OF THE 12T SWING CREDIT. END SUMMARY.

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2. KLING (ECONOMICS MINISTRY DEPUTY ASSISTANT

SECRETARY FOR ENERGY POLICY) HAS REPRESENTED THE FRG IN THE DISCUSSIONS THIS MONTH IN BERLIN WITH THE SENATE AND THE OIL COMPANIES REGARDING THE SCHWEDT-WEST BERLIN PIPELINE PROPOSAL. KLING BELIEVES THAT AN ARRANGEMENT COVERING 50 PERCENT OF WEST BERLIN'S PETROLEUM PRODUCTS' NEEDS VIA THE SCHWEDT REFINERY EXPANSION AND PIPELINE COULD LEAVE WEST BERLIN IN AN IMPROVED SITUATION, WITH GREATER RELIABILITY OF SUPPLIES FROM THE GDR MORE THAN AFFECTING ANY DISADVANTAGES INVOLVED IN A HIGHER DEGREE OF DEPENDENCE (50 PERCENT AS OPPOSED TO 35 PERCENT NOW). KLING CONSIDERED UNSATISFACTORY THE ECONOMIC AND COMMERCIAL NATURE OF BOTH THE GDR AND WEST BERLIN SIDES OF PRESENT ARRANGEMENT UNDER WHICH THE GDR SUPPLIES ABOUT 35 PERCENT OF WEST BERLIN'S PRODUCTS NEEDS.

3. ON THE GDR SIDE, ACCORDING TO KLING, NO REFINERY RUNS OR PRODUCTION QUOTAS ARE NOW SET ASIDE FOR WEST BERLIN. WEST BERLIN GETS MERELY WHAT IS LEFT OVER IN THE WAY OF PRODUCTS EACH MONTH IN GDR. SOME OF IT REFINED IN SCHWEDT, SOME OF IT IN LEUNE AND SOME IMPORTED. THE PRODUCT MIX IS IRREGULAR AND THE BRUNT OF FLUCUATIONS IN TOTAL GDR PRODUCTION IS BORNE BY WEST BERLIN. SOME MONTHS DELIVERIES ARE 100,000 TONS, OTHERS 50,000 OR LESS.

4. IN WEST BERLIN, ALL IMPORTS FROM THE GDR ARE HANDLED BY SCHULTE-FROHLINDE OF REX, WHOM KLING CONSIDERS A FAST-BUCK OPERATOR WITH NO BASE IN THE PETROLEUM BUSINESS. KLING WAS PARTICULARLY CRITICAL OF SCHULTE-FROHLINDE'S FAILURE TO NEGOTIATE A FIXED CONTRACT WITH THE GDR, INCLUDING PENALTIES FOR NON-DELIVERY. SCHULTE-FROHLINDE, ACCORDING TO KLING, HAS NO RECOURSE ON THE GDR IN CASE OF SHORT DELIVERIES, AND THE WEST BERLIN OIL COMPANIES WHO BUY GDR PRODUCTS FROM SCHULTE-FROHLINDE HAVE, IN TURN, NO RECOURSE ON HIM.

5. KLING ENVISAGED THE FOLLOWING ADVANTAGES FOR THE PROPOSED DEAL COVERING A PRODUCTS PIPELINE FROM LIMITED OFFICIAL USE

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SCHWEDT.

A. THE 3 MILLION TON REFINERY EXPANSION AT SCHWEDT WOULD BE SET ASIDE FOR EXPORT PRODUCTION, MOSTLY TO WEST BERLIN AND THE FRG.

B. THE PRODUCTS PIPELINE WOULD BE A MORE RELIABLE TRANSPORT SYSTEM THAN THE COLLECTION OF TRUCK, BARGE AND RAIL TRANSPORT USED NOW.

C. THE LONG-TERM PURCHASE CONTRACT WOULD BE NEGOTIATED

WITH A CONSORTIUM OF ALL THE MAJOR OIL COMPANIES IN
WEST BERLIN. THIS MEANT
--IT WOULD BE A SERIOUS CONTRACT, WITH FINANCIAL
PENALTIES FOR SHORT DELIVERIES
--THESE COMPANIES THEMSELVES WOULD BE UNDER THE GUN
TO MAKE UP ANY SHORT FALLS FROM THEIR OWN OPERATIONS
IN THE FRG.

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6. KLING HAD NO SOLID GUESS ON WHERE THE GDR WOULD
GET THE CRUDE FOR SCHWEDT EXPANSION. HE HOPED THE
SOURCE WOULD BE THE USSR, AT LEAST FOR PART OF THE
CRUDE. IF THE MAIN SOURCE WERE THE MIDDLE EAST,
THIS STILL MEANT THAT THE CRUDE SUPPLY WAS NO LESS SECURE
THAN THAT OF THE FRG.

7. IN SEPARATE CONVERSATIONS WITH OLLIG (ECONOMICS

MINISTRY, DIRECTOR OF THE OFFICE OF INNER-GERMAN TRADE) AND DR. HAASE (DIRECTOR OF PREUSSAG) WE WERE TOLD THAT THE CONTRACTS FOR GENERAL CONSTRUCTION OF THE REFINERY AND FOR ANY FINANCING WOULD BE SEPARATE FROM THE PRODUCTS PURCHASE AGREEMENT. OLLIG STRESSED THAT THESE AGREEMENTS WERE HIGHLY DESIRABLE IN THEMSELVES AND HAD NOT BEEN CONNECTED BY THE FRG WITH THE PROPOSAL FOR FRG-WEST BERLIN POWER TRANSMISSION LINE. (THIS IS CONTRARY TO ESSO'S IMPRESSION CITED IN LIMITED OFFICIAL USE

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REF 3). THE POWER LINE, ACCORDING TO OLLIG, IS NOT INTENDED TO BE A CONTRIBUTION TO MEETING BERLIN'S BASIC POWER NEED. THE LINE WOULD RATHER BE USED FOR AN EXCHANGE AT PEAK LOAD TIMES AND AS A BACK-UP BASIC SOURCE IN CASE OF EMERGENCY SHUTDOWNS OF BERLIN POWER PLANTS.

8. OLLIG SAID THE FRG CONSIDERS THE POWER LINE AS ESSENTIAL AND HAS REITERATED TO THE GDR THAT THE INTEREST-FREE 12T SWING CREDIT WILL NOT BE EXTENDED BEYOND ITS PRESENTLY AGREED EXPIRATION UNLESS THE GDR APPROVES THE POWER LINE. IN SEPARATE EFFORTS TO PUT PRESSURE ON THE GDR, THE FRG HAS TOLD THE SOVIETS AND THE POLES, BOTH OF WHOM HAVE PROPOSED PROJECTS INVOLVING POWER SALES TO THE FRG, THAT NO POWER LINE FROM THE USSR AND POLAND IS POSSIBLE UNTIL AN FRG-WEST BERLIN LINK IS PROVIDED (VIA A LINE FROM POLAND RUNNING THROUGH WEST BERLIN OR OTHERWISE).

9. DR. HAASE INFORMS US THAT PREUSSAG WILL PERFORM ONLY THE GENERAL CONSTRUCTION AT SCHWEDT WITH BECHTEL, PARSONS (U.S.) OR BOTH PROVIDING THE ENGINEERING AND CONSTRUCTION FOR THE REFINERY INSTALLATIONS. HILLENBRAND

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